



Thinking About Bankruptcy?

The purpose of bankruptcy is to give debtors who are unable to repay their debts a fresh start. Chapter 7 does so through liquidating a debtor's nonexempt property, paying off creditors with the proceeds, and discharging the remaining debts subject to discharge. Chapter 13 does so through the establishment of a court-supervised payment plan that takes into account the debtor's circumstances and ability to repay most or all of his or her debts over a reasonable period of time.

Is bankruptcy for you?

Many people wish they could make their debts disappear. Wouldn't it be great if every time our debts became burdensome, we could just wave a wand and be set free? In a sense, bankruptcy is a legal wand that does just that, but at a price. Here are some questions to ask yourself if you are thinking about filing for bankruptcy:

- Do I really need to file for bankruptcy?
- What will I gain by filing for bankruptcy?
- What will I lose by filing for bankruptcy?
- Will bankruptcy give me a fresh start?

Do I really need to file for bankruptcy?

Before you rush into filing for bankruptcy, you might want to consider other alternatives. If you can afford to repay your debts but need lower payments or more time, Chapter 13 could give you the time, structure, and motivation you need to make good on your debts. If you can pay your debts in full but need help setting up a repayment plan, budgeting your money, and disciplining your spending, the Consumer Credit Counseling Service can assist you without your going through the formalities and costs of bankruptcy. You yourself might work to reduce and repay more of your debts through reduced spending, working a second job, liquidating assets, and restructuring or closing out your most burdensome loans. You might also negotiate with creditors and try to lower your payments, extend repayment periods, or discount amounts owed. Be aware that discounted or forgiven debts are taxable as income.



What will I gain by filing for bankruptcy? Bankruptcy will relieve you of paying certain debts, but not all debts. While most credit card, medical, and other unsecured debts will be wiped out, most money owed for taxes, child support, alimony, and educational loans will not. Debts owed to family and friends may also be discharged, but is this what you want? Secured loans can be satisfied by the repossession and sale of the collateral involved, but any deficiency could be discharged through bankruptcy.

What will I lose by filing for bankruptcy?

Bankruptcy is a financial setback for those who have progressed in their acquisition of valuable assets and credit worthiness. Although some property is exempt from liquidation under Chapter 7, some prized possessions and hard-earned investments could be lost. The state and federal exemption lists ensure that some of one's equity in a home, car, personal belongings, tools of a trade, and other possessions is protected. However, nonexempt possessions and values of exempt possessions in excess of certain specified limits are subject to liquidation. The necessity to satisfy the nonexempt portion of obligations can mean the loss of one's home, car, prized stamp collection, purebred pets, or family heirlooms. Keep in mind that efforts to hide property can result in dismissal of the proceeding and felony charges.

Will bankruptcy give me a fresh start?

This is perhaps the most important question to answer. The value of bankruptcy depends most on what happens after bankruptcy. Although the fact of bankruptcy becomes part of one's credit history for up to ten years, the advantages obtained can be worth the stigma attached if the debtor has been able to correct an impossible situation and become financially responsible once again. Debtors who use the process only to gain a free ride while indulging bad habits may well find their future debts even more expensive and more difficult to discharge.

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